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SUBJECT: PERU TRADE AND INVESTMENT BRIEFS - MAY 2008

SUMMARY

1. (U) This is an update on the following trade and investment news from Peru:

TRADE

- Peru signs FTAs with Canada and Singapore
- Peru-China FTA May Be Completed in Two More Rounds
- Peru and Chile Moving Closer to Finalizing FTA
- Imports Registered a 47% Growth in April
- Overall Increases in Textile Exports from 2007
- Exports of Fish Products Grew 15.9% in March
- Exports of National Software Grew 25% This Year
- 18-25 Year Olds Buying More Electronics

INVESTMENT

- Peru Attracts New Spanish Investment
- French Businesses Look to Peru, Not Just Lima
- Brazil and Peru Partner on Hydro electrical Project
- Mitsui of Japan Plans to Construct Desalinization Plant
- French, Austrian, and Czechs Interested in Water

Peru Signs FTAs with Canada and Singapore

2. (U) On May 30, 2008, Peru and Canada signed a trade agreement after ten months of negotiation. The Canada-Peru FTA will immediately eliminate tariffs on 97 percent of Peruvian exports to Canada, with the remaining tariffs to be phased out over three to seven years. The deal also eliminates tariffs on 94 percent of Canadian exports to Peru, with the rest to be lifted over a period of five to 10 years. Peru's principal exports to Canada are gold, copper, asparagus and fishmeal, while its major imports are grains, machinery, electrical equipment, leguminous vegetables and paper. Peru and Canada also signed a cooperation agreement on labor and an agreement on the environment.

3. (U) On May, 30, 2008, Peru and Singapore signed a trade agreement. Negotiations between the two countries were completed on August 29, 2007. The agreement enables Peruvian products to enter Singapore duty free, as well as the rest of South East Asia, given that Singapore holds one of the central ports for products entering the region. President Alan Garcia remarked that this agreement will test the capacity and ability of Peruvian industry to export its diverse products to the Asian market.

Peru-China FTA May Be Completed in Two More Rounds

¶4. (U) The Minister of Trade and Tourism, Mercedes Araoz, announced that Peru may be able to complete negotiations on a free trade agreement with China with just two more rounds. She noted that the two parties need only to clarify a few important aspects of the agreement, primarily customs and tariff issues. Vice-Minister of Trade and Tourism Eduardo Ferreyros said Peru had introduced a customs cooperation agreement into the discussions with China during the third round of negotiations held in Beijing last week. The next round of negotiations will be held in Peru from June 28 to July 3.

Peru and Chile Moving Closer to Finalizing FTA

¶5. (U) The Minister of Trade and Tourism, Mercedes Araoz, welcomed comments made by the President of Chile, Michelle Bachelet regarding the trade cooperation agreement between Chile and Peru. The agreement, which is short of a full FTA, goes by ACE (acuerdo de complementacion economica in Spanish) or economic facilitation agreement. During an exclusive interview with CPN radio, the Chilean President said she awaits the quick passage of the agreement by her Senate. Further action on the agreement between Peru and Chile is dependent on action by the Chilean Congress. The Chilean Senate, in a pique over a border dispute, recently removed the agreement from its 'fast track' procedures.

Imports Registered a 47% Growth in April

¶6. (U) In April, imports totaled US\$2,265 million, an amount that represents a 47% growth from the same period 1st year. SUNAT announced that this represents 51 months of consecutive positive growth in imports. Capital goods and construction materials represented the leading import products at 61.7%, followed by consumer goods at 44.1%, and raw materials and intermediate products

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at 39.2%. The United States was the leading country of origin for imports for the month, followed by China, Ecuador, Brazil, and Argentina.

Overall Increases in Textile Exports from 2007

¶7. (U) Peru reports increased diversification in exports of the textile sector in the first trimester of the year, according to ComexPeru, the Society for External Business of Peru. Overall, ComexPeru reported sales of US\$461.59 million in the first trimester of the year, a 34.53% increase from the same period in 2007.

Exports of Fish Products Grew 15.9% in March

¶8. (U) The Minister of Production, Rafael Rey, announced that exports of fish products increased by 15.9% in March over the same period in 2007. This rise is a result of a 20.2% increase in volume of exports for fish meal.

Exports of National Software Grew 25% This Year

¶9. (U) Peruvian exports of software reached US\$ 31.25 million this year, a 25% increase from last year. The General Manager of Graa y Montero Digital (GMD) noted that software resulted in the largest increase with services representing only a small percentage of this increase. He remarked that the private and public sector are working together to promote the national software industry abroad. The General Manager noted that Chile, Mexico, Colombia, and Argentina all have a law that promotes this technology industry, whereas Peru does not.

18-25 Year Olds Buying More Electronics

¶10. (U) 18-25 year olds represent a new consumer segment with growing strength in purchasing electric appliances and electronics. A study, conducted by Arellano Marketing, revealed that 18-25 year olds represent 29% of the consumer market for electronic appliances in Lima. This group has a rising standard of living and an increased presence in the labor force. Top products purchased by 18-25 year olds include: (45%) Small electronics such as MP3, MP4, IPOD, calculators, PDAs; (28%) Video electronics such as DVD, Home

Theaters, Televisions; (19%) small electrical appliances such as microwave ovens, vacuums, irons; (18%) audio equipment; (9%) cellular telephones; (7%) cameras.

Peru Attracts New Spanish Investment

¶11. (U) The top two sources of Foreign Direct Investment (FDI) in Peru are Spain (27%; \$4,392 million) and the United States (18%; \$2,883 million). The Embassy of Spain announced in early May that at least ten new large and medium-sized Spanish businesses plan to invest in Peru this year. Interests focus on the following sectors: sanitation, infrastructure for ports and airports, consultant and other services, hotels, hospitals, housing, energy, and agricultural exports. The new investment will likely raise Spanish FDI to US\$4,622 million.

French Businesses Look to Peru, Not Just Lima

¶12. (U) The French Embassy in Peru announced that the French companies Suez Water and Veolia of France are interested in investing in concessionary projects for potable water in Huachipa, and in water services in La Chira and Taboada. In the last four years the presence of French companies in Peru has increased by 50%. The embassy cited Peru's economic development as the investment attraction for French companies.

Brazil and Peru Partner on Hydro electrical Project

¶13. (U) Brazil has negotiated the construction of 15 Hydro electrical plants in Peru. Peru and Brazil have reached agreement on the construction of a first plant with future plans for the construction of 14 additional plants. All of the energy created by the plants will be destined for Brazil.

Mitsui of Japan to Construct Desalinization Plant

¶14. (U) Mitsui of Japan plans to construct a desalinization plant in Chilca, south of Lima. Next week the Japanese company will present its final proposal to the Ministry of Housing, Construction, and

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Sanitation. Mitsui has formed a consortium with several Korean businesses to develop this project. The company is evaluating other possibilities for private investment in water plants for other regions in Peru including, Iquitos, Cusco, and Puno.

French, Austrian, and Czechs Interested in Water

¶15. (U) The European Union-Latin American Caribbean Summit held in Lima during mid-May resulted in an increased interest by European investors in Peru. French, Austrian, and Czech businesses have all expressed interest to Peruvian government officials on investing in the construction of water treatment plants in Peru.